

APPENDIX D TO PART 1026—MULTIPLE
ADVANCE CONSTRUCTION LOANS

Section 1026.17(c)(6) permits creditors to treat multiple advance loans to finance construction of a dwelling that may be permanently financed by the same creditor either as a single transaction or as more than one transaction. If the actual schedule of advances is not known, the following methods may be used to estimate the interest portion of the finance charge and the annual percentage rate and to make disclosures. If the creditor chooses to disclose the construction phase separately, whether interest is payable periodically or at the end of construction, part I may be used. If the creditor chooses to disclose the construction and the permanent financing as one transaction, part II may be used.

PART I—CONSTRUCTION PERIOD DISCLOSED
SEPARATELY

A. If interest is payable only on the amount actually advanced for the time it is outstanding:

1. Estimated interest—Assume that one-half of the commitment amount is outstanding at the contract interest rate for the entire construction period.

2. Estimated annual percentage rate—Assume a single payment loan that matures at the end of the construction period. The finance charge is the sum of the estimated interest and any prepaid finance charge. The amount financed for computation purposes is

determined by subtracting any prepaid finance charge from one-half of the commitment amount.

3. Repayment schedule—The number and amounts of any interest payments may be omitted in disclosing the payment schedule under §1026.18(g). The fact that interest payments are required and the timing of such payments shall be disclosed.

4. Amount financed—The amount financed for disclosure purposes is the entire commitment amount less any prepaid finance charge.

B. If interest is payable on the entire commitment amount without regard to the dates or amounts of actual disbursement:

1. Estimated interest—Assume that the entire commitment amount is outstanding at the contract interest rate for the entire construction period.

2. Estimated annual percentage rate—Assume a single payment loan that matures at the end of the construction period. The finance charge is the sum of the estimated interest and any prepaid finance charge. The amount financed for computation purposes is determined by subtracting any prepaid finance charge from one-half of the commitment amount.

3. Repayment schedule—Interest payments shall be disclosed in making the repayment schedule disclosure under §1026.18(g).

4. Amount financed—The amount financed for disclosure purposes is the entire commitment amount less any prepaid finance charge.

Example:

Assume a \$50,000 loan commitment at 10.5% interest with a 5-month construction period and a prepaid finance charge of 2 points.

(A)	(B)
Estimated Interest:	
$\$25,000 \times .105 \div 12 \times 5 = \$1,093.75$	$\$50,000 \times .105 \div 12 \times 5 = \$2,187.50$
Estimated APR:	
$\frac{(1,093.75 + 1,000) \times 100 \div 5 \times 12}{(25,000 - 1,000)} = 20.94\%$	$\frac{(2,187.50 + 1,000) \times 100 \div 5 \times 12}{(25,000 - 1,000)} = 31.88\%$
<u>Disclosures:</u>	
Amount financed \$49,000.00	\$49,000.00
Prepaid finance charge 1,000.00	1,000.00
FINANCE CHARGE (Estimate) 2,093.75	3,187.50
ANNUAL PERCENTAGE RATE (Estimate) 20.94%	31.88%
Repayment: One payment of principal of \$50,000 on 12-12-80. Interest on the amount of credit outstanding will be paid monthly.	4 monthly payments of \$437.50, beginning 8-12-80, and a final payment of \$50,437.50 on 12-12-80.
Total of payments (Estimate) \$51,093.75	\$52,187.50

PART II—CONSTRUCTION AND PERMANENT FINANCING DISCLOSED AS ONE TRANSACTION

A. The creditor shall estimate the interest payable during the construction period to be included in the total finance charge as follows:

1. If interest is payable only on the amount actually advanced for the time it is outstanding, assume that one-half of the commitment amount is outstanding at the contract interest rate for the entire construction period.

2. If interest is payable on the entire commitment amount without regard to the dates or amounts of actual disbursements, assume that the entire commitment amount is outstanding at the contract rate for the entire construction period.

B. The creditor shall compute the estimated annual percentage rate as follows:

1. Estimated interest payable during the construction period shall be treated for computation purposes as a prepaid finance charge (although it shall not be treated as a

prepaid finance charge for disclosure purposes).

2. The number of payment shall not include any payments of interest only that are made during the construction period.

3. The first payment period shall consist of one-half of the construction period plus the period between the end of the construction period and the amortization payment.

C. The creditor shall disclose the repayment schedule as follows:

1. For loans under paragraph A.1. of Part II, without reflecting the number or amounts of payments of interest only that are made during the construction period. The fact that interest payments must be made and the timing of such payments shall be disclosed.

2. For loans under paragraph A.2. of Part II, including any payments of interest only that are made during the construction period.

D. The creditor shall disclose the amount financed as the entire commitment amount less any prepaid finance charge.

Example:

Assume a \$50,000 loan commitment at 10.5% interest with a 5-month construction period and a prepaid finance charge of 2 points, followed by 30-year permanent financing at the same rate with monthly amortization payments of \$457.37.

Computation of Estimated APR

	<u>Interest on Amount Advanced</u>	<u>Interest on Entire Commitment</u>
Estimated construction interest:		
$\$25,000 \times .105 \times 12 \times 5 =$	\$1,093.75	$\$50,000 \times .105 \times 12 \times 5 = \$2,187.50$
Estimated total finance charge:		
360 x \$457.37 = \$164,653.20		\$164,653.20
Principal - 50,000.00		- 50,000.00
Interest on Permanent Fin. 114,653.20		114,653.20
Construction Interest + 1,093.75		+ 2,187.50
Points + 1,000.00	\$116,746.95	+ 1,000.00
		\$117,840.70

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Estimated amount financed:

Principal	\$ 50,000.00	
Construction		
Interest	- 1,093.75	
Points	- 1,000.00	\$ 47,906.25

\$ 50,000.00	
- 2,187.50	
- 1,000.00	\$ 46,812.50

Number of payments 360

360

Payment amount \$ 457.37

\$ 457.37

First payment period (5 + 2) + 1 3 1/2 months

(5 + 2) + 1 3 1/2 months

Estimated APR (Actuarial) 10.75%

11.03%

Estimated APR (Volume I):

$$\frac{11,674.695}{47,906.25} = 243.70 = FC/\$100$$

$$\frac{11,784.070}{46,812.50} = 251.73 = FC/\$100$$

First period adjustment =
3 mo., 15 days = +5.0

First period adjustment =
3 mo., 15 days = +5.0

Using 365 payment line, the figure
closest to 243.70 is 247.00, which
corresponds to an APR of

11%

Using 365 payment line, the
figure closest to 251.73 is
253.93, which corresponds to
an APR of

11.25%

Disclosures

Amount financed \$ 49,000.00

\$ 49,000.00

Prepaid finance charge 1,000.00

1,000.00

FINANCE CHARGE (Estimate) 116,746.95

117,840.70

ANNUAL PERCENTAGE RATE (Estimate) 11%

11.25%

Repayment: Interest on the amount
of credit outstanding during the
construction period will be paid
monthly, followed by 360 monthly
payments of \$457.37, beginning
1-12-81.

5 monthly payments of \$437.50
beginning 8-12-80, followed by 360
monthly payments of \$457.37 begin-
ning 1-12-81.

Total of payments (Estimate) \$165,746.95

\$166,840.70

EFFECTIVE DATE NOTE: At 78 FR 80130, Dec.
31, 2013, appendix D was amended by revising
paragraph C of part II, effective Aug. 1, 2015.
For the convenience of the user, the revised
text is set forth as follows:

APPENDIX D TO PART 1026—MULTIPLE
ADVANCE CONSTRUCTION LOANS

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*Part II—Construction and Permanent
Financing Disclosed as One Transaction*

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1. For loans under paragraph A.1 of part II,
other than loans that are subject to
§1026.19(e) and (f), without reflecting the
number or amounts of payments of interest
only that are made during the construction
period. The fact that interest payments must
be made and the timing of such payments
shall be disclosed.

2. For loans under paragraph A.2 of part II
and loans under paragraph A.1 of part II that
are subject to §1026.19(e) and (f), including
any payments of interest only that are made
during the construction period.

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C. The creditor shall disclose the repay-
ment schedule as follows: